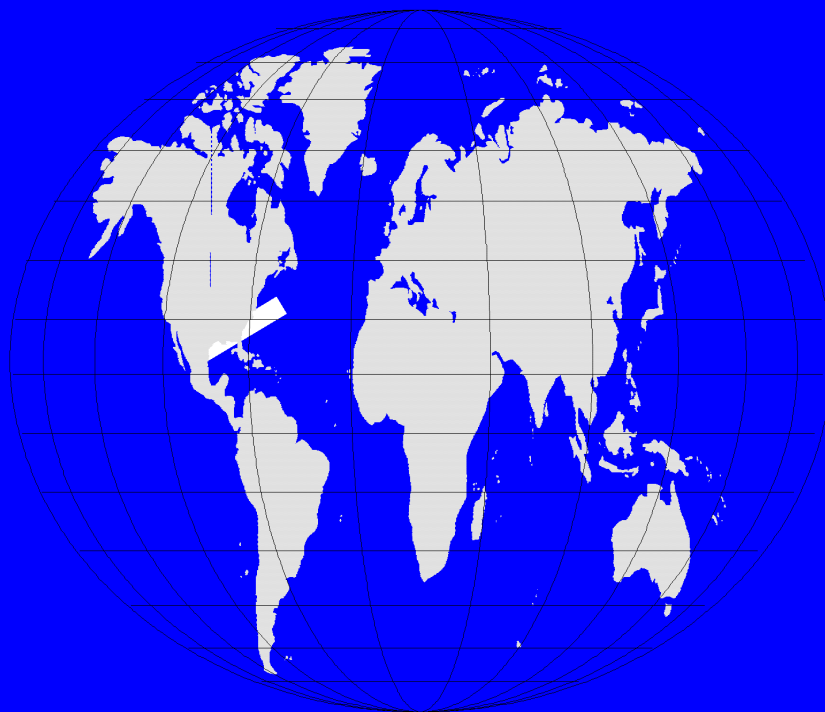


Report of Audit

Audit of USAID/Moscow's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance

Audit Report No. B-181-98-002-F

January 16, 1998



**BUDAPEST,
HUNGARY**

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January 16, 1998

MEMORANDUM

TO: USAID/Moscow, Janet Ballantyne

FROM: RIG/Budapest, James R. Bonnell

SUBJECT: Audit Report No. B-181-98-002-F, Audit of USAID/Moscow's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance

This is our final report on the subject audit. In preparing this report we considered your comments to the October 10, 1997 draft report and have included these comments as Appendix II. Our review of the two mission orders you prepared in response to Recommendation Nos. 1 and 3 indicate they are satisfactory and accordingly no further management action is necessary. We concur with your decision to deobligate \$60,962 rather than the \$184,704 suggested in Recommendation No. 2. However, your comments did not specify an amount which you believed could be deobligated for one of the obligations we had questioned (obligation no. 8 in Appendix III). Therefore, Recommendation No. 2 remains without a management decision until we reach an agreement on the amount which can be deobligated for this obligation.

I appreciate the cooperation and courtesy extended to my staff during the audit. Please advise us within 30 days of any additional information related to the amount to be deobligated for the obligation which remains without a management decision.

Background

This audit was part of a worldwide audit led by the Office of the Inspector General's Division of Performance Audits (IG/A/PA). The audit was designed to project, on the basis of a statistical sample, the total amount of invalid or excessive unliquidated obligations for USAID's project and non-project assistance as of September 30, 1996. Excluded from the audit were obligations funded with U.S.-owned local currency, obligations for disaster relief, and obligations maintained by USAID for the Trade and Development Agency.

IG/A/PA randomly selected the USAID sites for detailed audit work and using data submitted by the missions, randomly selected the unliquidated obligations to be reviewed. A total of 19 sites were selected for this audit (USAID/Washington and 18 missions including USAID/Moscow). As of September 30, 1996, USAID/Moscow had 311 unliquidated obligations which had unexpended balances totaling \$196,626,239. The statistical sample for the worldwide audit selected 60 of these obligations with unexpended balances totaling \$48,838,915. We reviewed these 60 unliquidated obligations to determine whether the balances were appropriate as of September 30, 1996. The results of this review were submitted to IG/A/PA for their use in preparing the world-wide report.

We subsequently performed a second review of the 60 unliquidated obligations to determine whether the balances were appropriate at the time of audit (August 1997 rather than September 30, 1996). This review was expanded to include an additional 34 obligations because they were associated with the contracts/grants covered by the original sample of 60. The 94 obligations had unliquidated balances of \$37,459,424 as of August 1997. The results of the analysis of these 94 obligations form the basis for this report which specifically addresses USAID/Moscow.

Audit Objective

This audit was designed to answer the following objective:

Did USAID/Moscow review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and Agency policies and procedures?

Appendix I contains a discussion of the scope and methodology for audit work conducted at USAID/Moscow.

Audit Findings

For the items tested, USAID/Moscow reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations. All 94 of the obligations tested were valid as prescribed by law. Moreover, over 99.5 per cent of the unliquidated balances tested appeared appropriate.

Some Obligations Had Excess Balances

USAID/Moscow did not always follow USAID policies and procedures when funding personal services contracts (PSC) and documenting Section 1311 reviews.¹ Mission officials believed that PSCs could be incrementally funded for periods which exceeded the guidelines and did not follow their established procedures when conducting reviews of unliquidated obligations. As a result, the audit concluded that as of August 1997, approximately \$184,704 in unliquidated obligations were potentially excess to USAID/Moscow's requirements and could be either deobligated or reprogrammed for other uses. USAID/Moscow should deobligate or reprogram these balances which exceed anticipated needs or do not comply with USAID guidance.

Recommendation No. 1: We recommend that USAID/Moscow issue guidance for funding personal services contracts.

Recommendation No. 2: We recommend that USAID/Moscow deobligate the \$184,704 in excess balances identified in this report.

USAID's Bureau for Policy and Program Coordination issues guidance for the preparation of mission and office budgets. Guidance applicable to fiscal year 1996 budgets included the following instructions:

- New project or activities: Obligations should provide funding for at least the first 18 months, but no more than 24 months.
- Continuing activities: Obligations should be sufficient to fund anticipated expenses for no more than 12 months beyond the end of the fiscal year in which the obligation takes place.

In this audit, we applied the forward funding guidelines shown above to determine whether any of the obligations tested had excessive balances. If the first test of the unliquidated balance concluded that an obligation had an excessive balance as of September 30, 1996, we performed a second test of the balance as of the date of audit (August 1997). This second test was performed to identify any excessive balances which could be deobligated or reprogrammed. To make this determination, we considered an unliquidated balance to be reasonable if it was sufficient to fund anticipated expenses through September 30, 1998, the expiration date of the obligation, or the expiration of the project completion date, whichever was earlier. We took into account balances of earlier

¹ The Supplemental Appropriations Act of 1955, Title 31 U.S. Code 1501 (a), establishes criteria for recording valid obligations. Under this Federal law, the Agency is required to submit an annual certification that all reported obligations meet the criteria for valid obligations. These reviews are called "Section 1311 Reviews."

or planned obligations which affected the continuing need for part or all of the unliquidated balances being audited. Any questioned amounts were discussed with appropriate staff.

Applying these standards to the 94 obligations selected for review, we found that eight of the obligations had excessive balances. The potential excess funds for these eight obligations was \$184,704. Appendix II lists these eight obligations and documents the reasons why we believe they are excessive.

Five of these eight obligations pertain to personal services contracts (PSCs). The mission frequently funded PSCs for two years at a time, regardless of whether it was a new activity or a continuing activity. This occurred because the mission misinterpreted the length of time they could incrementally fund a PSC. One obligation was an advance to a grantee which was not liquidated at the time of audit. The remaining two obligations were residual funds which remained after a commitment and a contract had expired.

Observations on Internal Control

Audit tests confirmed that USAID/Moscow had established adequate internal controls over its review and certification of unliquidated obligations for project and non-project assistance. In addition to USAID policies and procedures, USAID/Moscow prepared two mission orders addressing the quarterly accrual process and the procedures for performing Section 1311 reviews of obligations. However, we believe that our findings of excessive balances show that adherence to these controls with respect to the retention of unliquidated balances could be strengthened.

Recommendation No. 3: We recommend that USAID/Moscow: (a) re-emphasize the need to fully document with work papers the work performed to review each obligation and the conclusion reached, and (b) ensure that the review focuses on whether the pipeline may be excessive to fund planned expenditures at any point in time and not just as the activity is ending.

USAID's Financial Management Bulletin for Project Accounting (Part II, Bulletin No. 3, dated July 1992) states that the work papers providing documentary support for Section 1311 reviews must indicate the action taken to examine the validity of each unliquidated obligation and commitment. The accounting reports used in the Section 1311 reviews should be annotated to show; (1) the date of the review and the names of the reviewers, (2) the decision made regarding each obligation/commitment along with the rationale, and (3) the action to be taken to adjust the affected accounts.

USAID/Moscow's Section 1311 reviews did not adhere to these requirements or to the mission order. Generally, the process was a quarterly review of obligations which focused on developing accruals. The review was done by the activity manager and was not jointly conducted with a representative from the controller's office. The only documentation in the work papers to support what had been done to determine whether a balance was appropriate was a notation of the amount the activity manager believed should be deobligated. This amount was written in the margin of the report. For the majority of obligations, there were no notations made in the work papers. Without proper documentation, it was not possible to determine the thoroughness and reasonableness of USAID/Moscow's decision to retain the unliquidated obligation.

Another area of concern was that the Section 1311 review tended to focus on whether the unliquidated balance may be excessive as the activity was approaching its completion date. The majority of recommended deobligations occurred when the activity was ending, or had already ended. A responsible official in the controller's office confirmed this observations and stated it that it was very infrequent for the review to recommend a deobligation at a point in time when a substantial implementation period remained.

In summary, USAID/Moscow reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with laws and regulations. The instances where we concluded that a balance was excessive primarily occurred because mission officials believed they could incrementally fund a PSC for periods of time which exceeded USAID's forward funding guidelines. Also, USAID/Moscow did not always adhere to the USAID's or its own guidelines for performing a Section 1311 review. USAID/Moscow can ensure better adherence with these requirements by issuing guidance for funding PSCs and for performing Section 1311 reviews that conform to USAID guidelines. Additionally, the excess balances identified during the audit should be deobligated or reprogrammed for other uses.

Management Comments and Our Evaluation

USAID/Moscow generally concurred with the findings and recommendations. It prepared two mission orders to correct the internal control weaknesses identified in Recommendations Nos. 1 and 3. Our review of these mission orders indicate they are satisfactory and, accordingly, no further management action is necessary.

USAID/Moscow agreed to deobligate \$60,962 of the \$184,704 that we suggested be deobligated in Recommendation No. 2. It supplied additional information not available at the conclusion of our field work to support the need to retain \$122,050 of these funds. We reviewed this information and concur with USAID/Moscow's assessment.

For one questioned obligation (\$1,692 remaining from an unliquidated advance), we were told the mission would deobligate the balance which remained after the advance was liquidated. We concur with this decision; however, the OIG and USAID/Moscow must reach agreement on the amount which can be deobligated before a management decision is made. Consequently, Recommendation No. 2 remains without a management decision at this time.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Budapest audited USAID/Moscow's review and certification of unliquidated obligations for project and non-project expenses. This audit was part of an USAID-wide audit which was designed to project, on the basis of a statistical sample, the total amount of invalid or excessive unliquidated obligations for project and non-project expenses as of September 30, 1996. The audit excluded obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by USAID for the Trade and Development Agency.

Audit field work began at USAID/Moscow on July 28, 1997 and was finished on August 28, 1997. The audit objective was to determine whether USAID/Moscow reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID policies and procedures. The audit was executed in accordance with generally accepted government auditing standards.

Methodology

At the request of the OIG's Division of Performance Audits (IG/A/PA), USAID/Moscow compiled a list of its obligations for project and non-project assistance which had unliquidated balances as of September 30, 1996. The list showed 311 unliquidated obligations with balances totaling \$196,626,239. We randomly selected 60 of these obligations totaling \$48,838,915 for detailed testing. Random sampling will allow the OIG to make USAID-wide projections based on field work performed at a limited number of sites. Since the accuracy and completeness of this list was crucial to the OIG's ability to make such projections, we reviewed the universe of obligations at the beginning of the audit and confirmed that it included all obligations for project and non-project assistance with unliquidated balances as of September 30, 1996. The results of this random sample were provided to IG/A/PA for its use in making USAID-wide projections.

APPENDIX 1

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For this report, testing was expanded to include 94 obligations with unliquidated balances of \$37,459,424 as of August 1997. The additional 34 obligations were included because they were related to the contracts/grants covered by the original sample of 60.

In this report, the 94 obligations were evaluated to determine whether:

- (1) they were valid in accordance with applicable laws, regulations and procedures;
- (2) they could be deobligated and/or decommitted and reprogrammed for better use;
and
- (3) the associated internal controls were effective.

In making these determinations we applied the same criteria and tests as were performed for the results provided to IG/A/PA. Each obligation was reviewed to determine whether it was valid in accordance with the provisions of 31 U.S.C.1501 (a) and decisions of the U.S. General Accounting Office.

The unliquidated balance of each selected obligation was also reviewed to determine whether the balance was needed, in full or in part, to cover anticipated expenses during reasonable future periods. For the world-wide report, this determination was based on the situation as of September 30, 1996. For this report, this determination was made as of the conclusion of audit field work (August 1997). In making these decisions we considered the USAID and USAID/Moscow guidance for forward funding, activity-specific budgets and spending plans, actual disbursements, progress reports and accruals.

When amounts were questioned, the cognizant activity managers and contracting or grant officers were interviewed.

Internal controls reviewed included USAID/Moscow's written procedures for funds control, Section 1311 reviews, and quarterly expenditure accruals. We also reviewed the Section 1311 reviews conducted during fiscal year 1996 and the 1996 Federal Manager's Financial Integrity Act certification. Finally, limited tests of compliance with USAID procedures for Section 1311 reviews and other pipeline reviews of obligations for project and non-project assistance were performed.

APPENDIX II



United States Agency for International Development

Moscow

Appendix II
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Date: January 5, 1998
To: James Bonnell, RIG/Budapest
From: Janet Ballantyne, Mission Director, USAID/Russia
Subject: Audit of USAID/Moscow's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance

USAID/Russia welcomes this opportunity to comment on this audit of the Mission Review of Unliquidated Obligations. We have used this draft report to improve the Mission's internal management processes. We recommend that each recommendation be considered closed upon report issuance.

A discussion of each recommendation and the management actions taken follow below. While any amount of obligation in excess of needs is serious, we think that it is significant that in the statistical sample of nearly \$49 million in obligations only three tenths of 1 per cent were identified as potentially in excess.

USAID/Russia will continue to keep tight reins on its reviews and certification of unliquidated obligations.

Recommendation 1

We recommend that USAID/Moscow issue guidance for funding personal services contracts which comply with USAID forward funding guidelines.

- USAID/Russia concurs with this recommendation and we have drafted new guidance to restate agency forward funding guidelines. This guidance is attached. On this basis we recommend that this recommendation be considered resolved and closed upon issuance of the final report. USAID/Russia followed Agency's guidance when meeting FY 1997 year end obligations.

Recommendation 2

We recommend that USAID/Moscow deobligate the \$184,704 in excess obligations identified in this report.

As a result of this audit USAID/Russia reviewed each of the potential deobligations identified in the audit report. The table below summarizes the results of our review.

USAID/Moscow Obligations with Excessive Funding Balances as of August 1997				
No.	Obligation Number	Possible Excess Funds	Reason for IG Opinion	Mission Analysis as of 12/15/97
1.	118.0008.S.006164	\$15,759	Excessive forward funding of Personal Services Contract	Mission concurs. Mission has deobligated \$15,759.
2.	DPE.3046.Q.00.1048	8,475	Expired Commitment	Mission concurs. Mission has deobligated \$8,475
3.	118.0008.S.00.6239	26,228	Excessive forward funding of Personal Services Contract	Mission concurs. Mission has deobligated \$26,228
4.	118.0003.S.00.5188	7,456	Excessive forward funding of Personal Services Contract	With the FSN salary increase that was effective Oct. 12, 1997 and an increase in travel performed by this employee, the Mission does not believe any money can be deobligated from this contract
5.	118.0007.S.00.5264	14,631	Contract ended	The Mission is still responsible for the contractor's repatriation costs. Since the auditor's review the Mission has paid \$10,115.48 and is holding the balance for other anticipated costs that have been accrued but not billed.

USAID/Moscow Obligations with Excessive Funding Balances as of August 1997				
6.	118.0008.S.00.3009	96,297	Excessive forward funding of Personal Services Contract	Our analysis of actual disbursements between 5/16/97 and 11/28/97 shows that the Mission will need \$137,000 plus repatriation costs to close out this contract. Therefore, no excess funds are anticipated.
7.	118.0003.S.00.4004	14,166	Excessive forward funding of Personal Services Contract	The Mission deobligated \$10,500 from this contract on September 11, 1997. With the FSN salary increase that was effective Oct. 12, 1997 and an increase in travel performed by this employee, the Mission does not believe any more money can be deobligated from this contract.
8.	118.0004.A.00.5194	1,692	Advance not liquidated	The Mission has not processed this deobligation but will concentrate on liquidating the outstanding advance and will deobligate whatever balance remains after advance is liquidated.
TOTAL		\$184,704		

- Based on the thorough review USAID/Russia has made of the potential excess obligations identified by the audit it has deobligated \$60,962. Supporting documentation for each of these deobligations is attached. Based upon the deobligation actions taken, the Mission requests that upon issuance of the final report this recommendation be considered resolved and closed.

Recommendation 3

We recommend that USAID/Moscow (a) re-emphasize the need to fully document with work papers the work performed to review each obligation and the conclusion reached and (b) ensure

that the review focuses on whether the pipeline may be excessive to fund planned expenditures at any point in time and not just as the activity is ending.

- USAID/Russia has revised its established procedures and rewritten Mission Order 19-6 to reemphasize the documented requirements to support the analysis underlined by the activity managers and financial management in the 1311 review process. Attached is a copy of the revised mission order. Please consider this recommendation resolved and closed upon report issuance.

APPENDIX III**SCHEDULE OF POTENTIAL DEOBLIGATIONS**

USAID/Moscow Obligations with Excessive Funding Balances as of August 1997			
No.	Obligation Number	Possible Excess Funds	Reason for IG Opinion
1.	118.0008.S.006164	\$15,759	Excessive forward funding of Personal Services Contract
2.	DPE.3046.Q .00.1048	8,475	Expired Commitment
3.	118.0008.S.00.6239	26,228	Excessive forward funding of Personal Services Contract
4.	118.0003.S.00.5188	7,456	Excessive forward funding of Personal Services Contract
5.	118.0007.S.00.3009	14,631	Contract ended
6.	118.0008.S.00.3009	96,297	Excessive forward funding of Personal Services Contract
7.	118.0003.S.00.4004	14,166	Excessive forward funding of Personal Services Contract
8.	118.0004.A.00.5194	1,692	Advance not liquidated
TOTAL		\$184,704	